



## **PURA DECISION ON OUTSOURCING NU'S IT FUNCTIONS/CLOSING MIDDLETOWN OFFICE**

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### **PURA DRAFT DECISIONS**

PURA issues a draft decision that describes how it held the case and presents the arguments of the parties, and interveners. It then presents its analysis of the case and issues orders. Participants can file written exceptions, which PURA considers before issuing a final decision.

### **QUESTION**

What is in the Public Utilities Regulatory Authority (PURA) draft decision on Northeast Utilities' (NU) proposal to outsource its information technology (IT) function and close its offices in Middletown and several other towns?

### **SUMMARY**

PURA opened this case (docket 13-11-13) on a motion from the Office of Consumer Counsel (OCC) and the attorney general to review NU's plans for IT outsourcing, facility closings, and employee relocations as they related to customer service, storm response, and consistency with the settlement agreement PURA approved in docket No. 12-01-07 (the merger of NU and NSTAR, a Massachusetts utility).

PURA issued a draft decision on March 4, 2014. In the draft decision, PURA does not oppose NU's plans and finds that customer service and storm response should not be affected. It finds that the proposed layoffs resulting from the outsourcing will not place NU's customer service or cyber security at risk. It finds that storm response time should not be affected by the facilities closings and no field service employees will be laid off. The facilities closing and employee relocations should produce a more efficient service organization at a lower cost. It finds that NU is in compliance with the settlement agreement relating to its IT outsourcing, facility, response time for storm emergencies, and employee relocations.

PURA will monitor these issues through a series of orders and by convening a technical meeting in early 2015. The draft decision is available at <http://www.dpuc.state.ct.us/dockcurr.nsf/8e6fc37a54110e3e852576190052b64d/6ea6577a7ea264ba85257c91006b1b0b?OpenDocument>.

## **CONDUCT OF THE PROCEEDING**

On September 20, 2013, the attorney general and OCC requested that PURA begin a proceeding to review the: (1) outsourcing of IT jobs by NU; (2) outsourcing's impacts on NU's storm and outage readiness; and (3) consistency with the settlement agreement. On October 1, 2013, NU notified PURA of changes and possible closings of its facilities, in accordance with that agreement.

PURA held a hearing on December 16, 2013, which was continued to Tuesday, January 14, 2014. In addition to NU, OCC, and the attorney general, the Department of Energy and Environmental Protection participated as a party, and locals 420 and 457 of the International Brotherhood of Electrical Workers (IBEW) as interveners.

PURA received 23 letters and e-mails from legislators, elected officials, emergency responders, the IBEW locals, and the public regarding this docket. The public comment and correspondence unanimously opposed the facility closings and IT outsourcing. The comments on the IT outsourcing cited concerns over the negative impact the outsourcing could have. The comments were also negative regarding the facility closings, arguing that the closing of facilities would harm regular customer service and storm response restoration.

## **PURA ANALYSIS**

### ***Information Technology***

According to the decision, the impetus behind the proposed IT outsourcing is the need to merge the NSTAR and NU IT departments to be more efficient and customer friendly. NU believes that outsourcing will allow it to quickly and rapidly adapt to changing business conditions and changes in the market.

NU proposes to provide many of its IT services using two companies, Infosys and Tata Consulting Services. Infosys would provide IT operations support, applications support for shared services (finance, human resources, and supply chain), and application support for operations work management solutions. Tata Consulting Services would primarily provide the applications support for customer care. PURA reviewed the agreements between NU and these companies and found them to be appropriate and in line with the tasks NU expects the companies to perform.

Under NU's transition plan, 202 of its current IT employees would be retained and 99 would leave the company under a voluntary separation program. Forty current employees would be offered positions to work with new vendors, and 32 would be offered opportunities within the NU IT organization. Fifty-five employees would be laid off, most between January and June 2014.

PURA reviewed NU's cost-benefit analysis of its IT outsourcing plan. PURA ruled that the analysis was confidential due to proprietary information it contained. As a result, while participants in the proceeding had access to the analysis it is not available to the public. PURA also cross-examined NU's witnesses on this analysis. It found that the cost benefit analysis of NU's IT outsourcing plan was appropriate.

***Merger Settlement.*** The attorney general and OCC argued that the plan violated the merger settlement agreement, which requires that resulting reductions in the Connecticut work force be proportionate to other jurisdictions where the merged company conducts operations, with respect to the number of reductions and the relative number of high-paid versus lower-paid positions.

PURA noted proportionality is difficult to achieve in the short run due to the business complexity of combining two large organizations. It found that proportionality will take careful planning and monitoring by NU in order to comply with the settlement agreement. NU acknowledged that it carries the burden and that plans are made to provide proportionality, although it has not made these plans public.

PURA stated that it will not micromanage NU in running its business unless customers are put at risk. It found nothing in the record that would suggest customers will be placed at risk by the IT outsourcing. As a result, PURA decided not to oppose the IT outsourcing, but it will monitor the results of the IT outsourcing through NU's compliance with the orders of this decision. It found that it may take two to three years to achieve proportionality and that, at present, NU is complying with the proportionality provision of the settlement agreement.

***Cyber Security.*** PURA and OCC also raised concerns about cyber security in reviewing the plan. NU stated that its cyber security effectiveness should not be affected by the outsourcing given that its security program has been developed based on industry best practices. NU has no plans to change its program due to the outsourcing. PURA concluded that since NU's in-house staff will retain responsibility for cyber security, NU and its customers are not at risk due to security breaches.

## ***Facility Closings and Relocations***

On October 1, 2013, NU announced plans to close several Connecticut Light and Power (CL&P) service facilities. They are located in New Milford (24 employees), Middletown (63 employees), Willimantic (56 employees), Plainfield (four employees), and Greenwich (22 employees). It also announced the closing of unstaffed facilities in Oxford and Wilton. NU stated that there was no plan to eliminate any positions with the closing of the facilities. Rather, the affected employees would be transferred to Danielson, East Hampton, Hartford, Madison, Stamford, Tolland, and Waterford, with East Hampton gaining the largest number of employees (69). In addition, NU also plans to close three Yankee Gas facilities in Torrington, Waterford, and Ansonia, transferring 45 employees to other facilities.

NU argued that the proposed facility closings and relocations will benefit ratepayers by reducing costs and improving workforce efficiency, resulting in improved system maintenance. Fewer sites will result in reduced operational costs since facility consolidation would reduce annual facility operating costs and building renovation and capital renewal costs. These savings would flow to ratepayers in future rate cases. In addition, consolidations would improve operations since the remaining sites would permit larger crews in each area. These larger crew complements would provide for (1) increased consistency, (2) greater flexibility in staffing assignments, (3) enhanced opportunity to share knowledge and equipment, (4) development of standardized practices, and (5) sufficient work for more level, balanced staff assignments enabling better customer response.

In order to determine which facilities should be closed, NU sought to ensure that:

1. travel time across the NU service area was consistent with that in the industry,
2. all customer premises would be within a 60-minute drive to a service center,
3. 90% of all customer premises would be within a 45-minute drive from a service center,
4. total aggregated travel time will not increase an average of more than five minutes,
5. the existing NU service centers would be large enough to fit the number of crews in proportion to the projected work in the districts each service center serves,
6. expenditures are minimized by using properties to reduce operating costs and building renovation/capital renewal costs,

7. all customers are considered equal and that customers nearby the (existing) service centers are not considered to be more or less important than other customers, so that all customers were considered equally without regard to where service centers have historically been located, and
8. overall travel time is minimized across the entire service area.

PURA analyzed NU's approach to closing the facilities and found that its locational analysis was valid and showed very little impact in travel times due to the facility closings.

### ***Storm Response***

The settlement agreement requires that NU maintain parity of service among the states in its service territory, so that resources for restoration efforts following major storms are allocated fairly and equitably based on operational needs, system requirements, and relative numbers of outages.

PURA expressed concern that the layoffs could affect NU's ability to respond to storms. The employees subject to layoff monitor a number of key applications and systems. They also provide a number of support services during storm response, for example serving as town liaisons and guarding downed wires. OCC expressed similar concerns.

PURA concluded that these roles may be filled, following the IT reductions, from remaining NU IT personnel, corporate staff available for assignment, and third party contractors through existing or new contracts. It also noted that continuing process and technology improvements are expected to lessen the need for assigned personnel over time.

The attorney general stated that NU has not yet filled the 60 to 65 non-IT related storm jobs that it expects to fill by the close of the first quarter of 2014. He recommended that PURA ensure that NU's outsourcing of 226 Connecticut-based IT jobs not have a negative impact on the CL&P and Yankee Gas readiness for or responsiveness to major storms.

PURA also concluded that due to technological advances in logistics, NU's storm response for both electric and gas customers should not be affected by facilities closings. Relative to the settlement agreement, the facilities closings involve only the Connecticut operations and result in no layoffs. NU will continue its proper storm response procedures from its remaining IT workforce or from those contracted to assist in storm responses. Therefore, PURA found that NU is complying with the mandates of the settlement agreement regarding storm response.

## **COMPLIANCE ORDERS**

OCC and the attorney general recommended that PURA order NU to make various filings. NU objected, arguing that the filings would be burdensome and unnecessary. PURA disagreed and ordered that NU:

1. notify PURA within 30 days after concluding the IT outsourcing;
2. file a report with PURA, by July 1 annually from 2015 through 2018 on the status of training and supervision of the contracted IT employees;
3. notify PURA within 30 days after the completion of the facilities closings and relocations;
4. report to PURA by December 31, 2014 on how the non-IT storm roles, including town liaisons have been filled, with specific requirements for this report;
5. report to PURA by December 31, 2014, using a representative sampling from each CL&P and Yankee Gas service center that had been consolidated, on the average and maximum travel time from the service center to a customer, based on a quarterly period of actual experience;
6. report, by January 31 annually from 2015 through 2021, the net impact on customer service of the facilities consolidation plan for the areas that were served by each closed center;
7. report, by January 31 annually from 2015 through 2021, the cost savings resulting from the facilities closing plan; and
8. request, by February 24, 2015, a technical meeting to report on and discuss the facilities closings and response time for standard work and emergencies and address the issue of proportionality as outlined in the settlement agreement.

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